

LESSONS LEARNED

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KELLY RICHMOND POPE

“A left-handed CPA who uses filmmaking to teach life lessons about decision making”



Today's Agenda

- THINK
- REFLECT
- PROCESS
- DISCUSS
- RETAIN



MY FRAUD A-HA MOMENT



Ex-banker faces prison term, fine

GREENSBORO — Former NationsBank executive Thurman E. Dortch could face a prison sentence of more than 200 years on his conviction for defrauding the bank of more than \$2 million.

Mr. Dortch also could be fined \$1.75 million when he is sentenced in July on fraud, money-laundering and conspiracy convictions.

According to prosecutors, Mr. Dortch schemed with Durham developer Gary Lynn Wallace to remove from NationsBank's books a series of improper loans that Mr. Dortch had made to Mr. Wallace in the 1980s.

SOMETIMES GOOD COLLEAGUES CAN RATIONALIZE BAD DECISIONS



An Ethical Dilemma: The Bob Lattas Story

- DePaul University Accounting Instructor
- Successful Real Estate Attorney
- Former White House Intern



Department of Justice

U.S. Attorney's Office

Northern District of Illinois



FOR IMMEDIATE RELEASE

Tuesday, June 4, 2013

Two Attorneys Among Four Defendants Indicted In Two Separate Mortgage Fraud Schemes Involving South Side Properties

CHICAGO — Two attorneys are among four defendants who have been indicted in two separate mortgage fraud cases, federal law enforcement officials announced today. In one case, an attorney, a real estate investor, and a loan originator were charged with allegedly participating in a scheme to fraudulently obtain at least five residential mortgage loans totaling approximately \$1.5 million from various lenders. In the second case, an attorney was charged with allegedly participating in a scheme to fraudulently obtain at least 12 residential mortgage loans totaling nearly \$3.75 million from various lenders.



Sometimes it's who you least suspect...



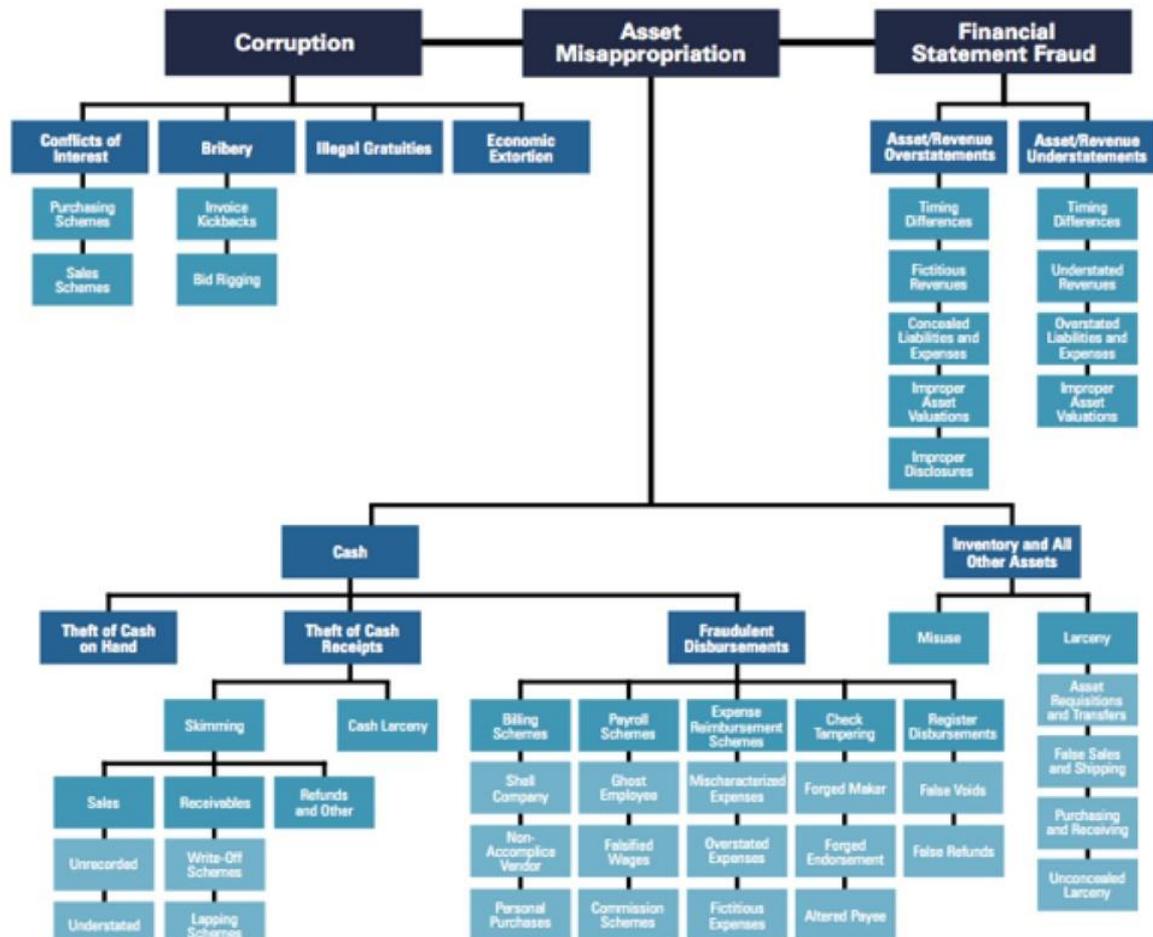
Listen to the audio interview

The link is provided in the chat box.

WHY IS FRAUD SO DIFFICULT TO FIND?



Figure 3: Occupational Fraud and Abuse Classification System (Fraud Tree)



WHAT DOES FRAUD LOOK LIKE?



**FRAUD IS DIFFICULT TO IDENTIFY
SO WHAT DO WE DO?**

HOW TO PREVENT FRAUD

Good Internal controls will not stop people from stealing but good internal controls can catch a person that is stealing.



BUSINESS OWNERS WHO THINK THEY DON'T NEED INTERNAL CONTROLS OFTEN SAY:

- We have great internal controls.
- We have the best employees.
- He/she is part of the family.
- Our auditors give us a clean bill of health every year.



FRAUD CAN BE PREVENTED.

Everyone will try and rationalize why the person in question could not possibly be stealing.



A COMMON RED FLAG:
A visit from the IRS

BEST PRACTICES WHEN HANDLING CASH:

- Perform background checks on key people handling cash.
- A standardized cash handling process is key.
- Depositing, counting and balancing cash should follow a strict schedule.
- Limit the employees who handle cash.
- Make sure cash handling duties are segregated.



THE FRAUD TRIANGLE:

Opportunity
Pressure
Rationalization

OPPORTUNITY IS THE ONLY ASPECT OF THE FRAUD TRIANGLE A BUSINESS CAN CONTROL.



THE TRADITIONAL FINANCIAL STATEMENT AUDIT IS NOT DESIGNED TO FIND FRAUD.



VERY HELPFUL TIPS:

- Remember, fraud doesn't often look like fraud but more like accounting errors.
- Review canceled checks; yes look at the canceled checks.
- Always review your bank statements.
- If you issue credit cards to employees, periodically review the charges.
- If your employees know you are looking, they are less likely to steal.



SCHEMES TO REMEMBER:

- Expense reimbursements are always a good starting point in a fraud investigation.
- Check tampering schemes are the easiest frauds to uncover and quantify.
- Payroll schemes are often one of the first frauds discovered.
- Cheapest fraud detection tools: Bank statements, canceled check images, credit card statements, expense receipts and payroll reports.



A GOOD ACCOUNTANT CAN GIVE YOU A STATEMENT WITH A CLICK OF A BUTTON. BE CAUTIOUS IF YOU CAN'T GET BASIC FINANCIAL INFORMATION.



SAFEGUARDS NEED TO BE PUT IN PLACE AROUND EVERYONE REGARDLESS OF THEIR ROLE.

Lessons from Historical Frauds



Embezzlement



Financial
Statement Fraud



Corruption



Insider Trading
and Ponzi
Schemes

WHAT THE RESEARCH SAYS

Recent experimental evidence suggests that there is a stronger inclination to behave immorally in groups than individually.

I Lie? We Lie! Why? Experimental Evidence on a Dishonesty Shift in Groups by Kocher, Schudy and Spantig (2017)

GROUP ACTIVITY:

NOTHING
BUT THE 
TRUTH

Scenario 1

Your cab driver gives you a blank reimbursement slip and the actual receipt for the ride. Instead of using the actual receipt, you submit the blank receipt and add \$2 dollars to the fare price on your expense reimbursement.



Scenario 2

You invite a friend who works in the same industry to lunch and you spend 15 minutes talking work related items and an hour talking personal items. You submit the receipt to your company as a work related lunch for reimbursement.



Scenario 3

Your company sends you to a conference in Hawaii and instead of attending conference sessions, you spend the majority of your time with friends on tours of the island.



Scenario 4

Your friend works for a tech start up that is about to go public. Your friend tells you about the pending IPO and you decide to buy shares based on this information.



Scenario 5

It's time for you to complete your annual compliance training and instead of taking the online course and reading each question per the instructions, you barely read the questions and guess the correct answer until you get the needed score. Upon completion, you sign the compliance certification form indicating that you read and completed all sections of the training.



WORKPLACE EMPLOYEE CRIMES

ANTI-ORGANIZATIONAL

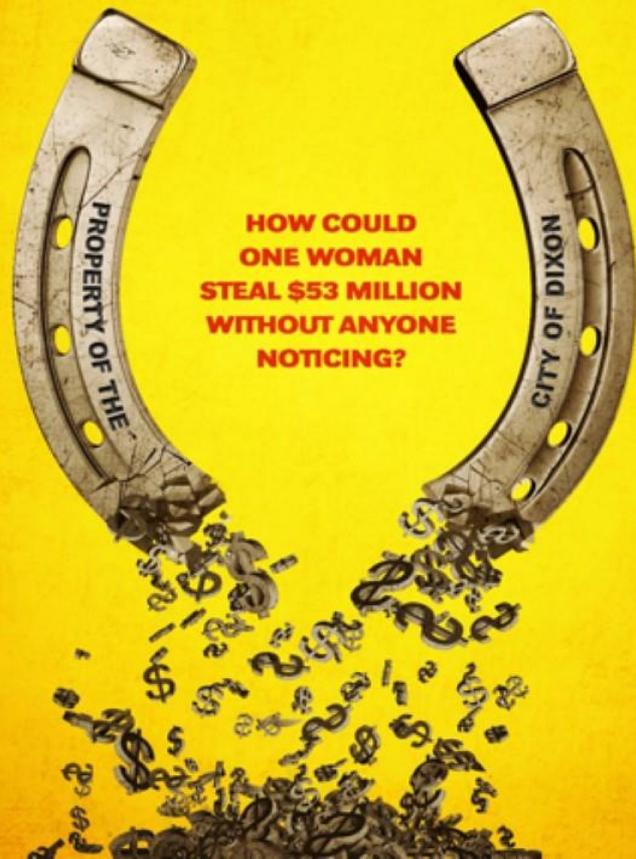
PRO-ORGANIZATIONAL

NON-ALIGNED ORGANIZATIONAL

Anti-Organizational

- Driven by the desire to harm others and result in gain.
- Acts include:
 - workplace deviance
 - minor infractions
 - filing false expense statements.

ALL THE
**QUEEN'S
HORSES**



**HOW COULD
ONE WOMAN
STEAL \$53 MILLION
WITHOUT ANYONE
NOTICING?**







Illinois Department
of Transportation

Invoice

City of Dixon
121 W 2nd
City Clerk
Dixon, IL 61021

INVOICE NO. 101492
RESP. CODE 8040
INVOICE DATE 06/22/2007
REVENUE CODE 6305
AUDIT NUMBER
PAYER NUMBER 06514

EXPLANATION OF CHARGES

PAY FROM THIS INVOICE

	AMOUNT
LOCATION: IL 28 & Bloody Gulch Road	
LOCAL SECTION:	
ROUTE: FAP 316	
SECTION: 101TS	
COUNTY: Lee	
JOB NO.: C-92-110-06	
PROJECT NO.: HS-0318/0317	
CONTRACT NO.: 64C28	
DISTRICT: 2	

The Agreement executed 5/19/2006 between City of Dixon, and the State of Illinois provides that the city will reimburse the State for part of the construction costs.

FINAL CITY SHARE:

LS30L01 @ 5%	\$148,139.04	\$7,306.95
Plus engineering @ 15%	\$7,306.95	\$1,096.04
City of Dixon share	\$8,402.99	
Payment Due Date 07/06/2007	TOTAL DUE	\$8,402.99

PLEASE MAKE CHECK PAYABLE TO TREASURER, STATE OF ILLINOIS

MAIL TO: Illinois Department of Transportation
Room 322, Harry R. Hanley Building
2300 So. Dirksen Parkway
Springfield, IL 62764

INQUIRIES CONTACT: Sunday Odele at 217/785-4817.

INVOICE

INVOICE NO. 78947
RESP. CODE 8040
INVOICE DATE 11/15/03
REVENUE CODE 6305
AUDIT NUMBER
PAYEE NUMBER 06614

DIXON, CITY OF
C/O City Clerk
City Hall
Dixon
IL 61021

EXPLANATION OF CHARGES

PAY FROM THIS INVOICE

LOCATION: Route 26 & South Galena Avenue
ROUTE :
SECTION : 1018
COUNTY :
PROJECT NO.: P-92-105-98
CONTRACT NO.: FAS-02-39-02/000 64362

397 - 11/24/03
a/c# 720037

The Agreement executed between DIXON, CITY OF, and the State of Illinois provides that the city will reimburse the state for part of the construction costs.

CITY SHARE: \$1,250,000.00

Bal. 235,000

Upon Award

Payment Due Date: 11/01/03

NOW DUE \$500,000.00

PLEASE MAKE CHECK PAYABLE TO TREASURER, STATE OF ILLINOIS
AND MAIL TO: Illinois Department of Transportation
Room 322, Harry R. Hanley Building
2300 So. Dirksen Parkway
Springfield, IL 62764

48,070 views | May 9, 2020, 11:18am EDT

Will Jailed Dixon Embezzler Be Released From Federal Prison? Maybe.



Kelly Richmond Pope Contributor 

Personal Finance

I write about fraud and film...and accounting.

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in



Educate. Advocate. Empower.

PRESIDENT

Mayor Leon Rockingham, Jr., North Chicago

FIRST VICE PRESIDENT

Mayor Ricky J. Gottman, Vandalia

SECOND VICE PRESIDENT

Village President Catherine Adduci, River Forest

EXECUTIVE DIRECTOR

Brad Cole, Former Mayor, Carbondale

VICE PRESIDENTS

Mayor Richard H. Veestra, Addison

Mayor Richard Irvin, Aurora

Mayor Greg Szymanski, Beecher

Mayor Michael Chamberlain, Belvidere

Mayor John Michael Henry, Carbondale

Mayor Lois E. Lightfoot, Chicago

Village President Charles E. Tokar, Chicago Ridge

Mayor Kevin B. Hutchinson, Columbia

Mayor Julia Moore Wolfe, Deeratur

Mayor Teresa Kerst, Diamond

Mayor Liandra Arellano, Jr., Dixon

Mayor Reggie Freeman, East Moline

Mayor Mark Kopsky, Fairview Heights

Mayor John Pritchard, Galesburg

Village President Mike McCormick, Godfrey

Village President Rodney S. Craig, Hanover Park

Village President Vernard L. Alkberry, Jr., Hazel Crest

Mayor Andy Ezard, Jacksonville

Mayor Tim Gover, Mattoon

Mayor Joe Judge, Mount Carmel

Mayor John C. Lewis, Mount Vernon

Town President Chris Kaos, Normal

Mayor Jim Ardis, Peoria

Mayor Scott Hart, Peru

Mayor Robert Hausler, Plano

Mayor Kyle Moore, Quincy

Village President Rick Reinbold, Richton Park

Mayor Thomas McNamora, Rockford

Mayor Dale B. Adams, Rockton

Mayor Richard H. Hill, Round Lake Beach

Mayor George Van Dusen, Skokie

Mayor James O. Langfelder, Springfield

Mayor Gary W. Hamler, Washington

Mayor Samuel D. Cunningham, Waukegan

Mayor Tom Jordan, West Frankfort

PAST PRESIDENTS

Village President Karen Darch, Barrington

Mayor Mark W. Eckert, Belleville

Mayor Roger C. Clear, Bolingbrook

Mayor Michael J. Timmer, Macomb

Mayor Gerald E. Dougherty, Mascoutah

Mayor Gerald R. Bennett, Palos Hills



May 12, 2020

The Honorable Philip G. Reinhard
United States District Court Judge
Northern District of Illinois, Western Division
Stanley J. Roszkowski United States Courthouse
327 South Church Street
Rockford, Illinois 61101

RE: *U.S. vs. Rita A. Crundwell*, No. 12 CR 50027

Dear Judge Reinhard:

On behalf of the 1,298 cities, villages and towns throughout the state, all represented by the Illinois Municipal League (IML), please review and consider this letter in strong opposition to the request of Rita A. Crundwell (Crundwell) for early release or reduction of her sentence.

In November 2012, Crundwell pled guilty to wire fraud, in violation of Title 18, USC, Section 1343, and admitted to committing fraudulent transactions over the course of a decade. During that time, she illegally obtained more than \$53 million from the taxpayers and residents of the City of Dixon, Illinois.

Your comments at sentencing included that Crundwell was engaged in “massive stealing of public money” entrusted to her as a public guardian of Dixon. You also commented that Crundwell showed greater passion for the welfare of her horses than the people of Dixon, who she purportedly represented. Part of the 19-year and 7-month sentence was a result of your grant of the government’s request for an upward variance in the federal sentencing guidelines. In addition to the financial loss, you found that Crundwell caused a significant non-monetary loss, which involved a loss of public confidence in local government and a significant disruption of government function that struck “at the very heart of Dixon’s abilities to provide essentials for its citizenry.”¹

Despite monetary recovery from multiple sources, the residents of Dixon will never fully recover the financial losses from this unprecedented betrayal of trust. Neither will the elected and appointed officials from throughout Illinois and our nation who carry an undeserved burden with them from Crundwell’s criminal behavior under the guise of public service.

¹ Department of Justice, U.S. Attorney’s Office, Northern District of Illinois, February 14, 2013.

Just last year, IML provided a screening of *All the Queen's Horses*, the documentary chronicling this theft, to attendees at our annual conference. More than 300 local officials attended the screening and hundreds more have viewed the documentary online in the meantime. Their comments continue to reflect the negative impact of these crimes on their municipalities' collective reputations. The silence in the room, while the film was being watched, spoke volumes about the utter astonishment of how someone could perpetrate such brazen fraud.

Crundwell, motivated by unbridled greed, took advantage of the trust of her colleagues, her friends and the entire community. The sentence you imposed was appropriate and she has presented no extraordinary or compelling reason to modify that sentence now.

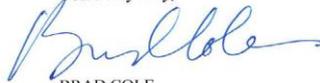
The irony of Crundwell's request for early release due to the current public health crisis and global pandemic is unmatched. For decades, through her own hands, she caused financial hardship on her own hometown such that could never have been foretold. Now, through an economic collapse of possibly never-before-seen proportions impacting every level of society and government, she seeks compassion over worry for her "deteriorating health condition and danger of the COVID-19 pandemic." I am not the least apologetic to state, especially because of this second, current financial storm being weathered by the City of Dixon, that Crundwell fully deserves to complete every last day of her original sentence. Indeed, it may actually be the only thing she ever rightfully earned in her entire life.

Judge, this may be the first time, and hopefully is the last time, that our professional association has ever offered an opinion on a criminal sentencing request. Please weigh that in your deliberations and thoughtful consideration of this matter. Now, more than ever, the people of Illinois need to trust their government and elected officials, and they can do that best by knowing Rita Crundwell remains a "model minimum security prisoner," as she is reported to claim, where she can do no more harm.

On behalf of the honest, trustworthy and hardworking elected and appointed officials of every community in Illinois, we request that you deny Crundwell's attempt to diminish her sentence.

Please feel welcome to contact me if I may be of assistance with this or any other matter. I may be reached by email at bcole@iml.org or by cell phone at (618) 201-7320. Thanks.

Yours very truly,



BRAD COLE
Executive Director

Enclosure

“We all have a Rita in our organization — someone who we unconditionally trust — and when they tell us something, we don’t check up on it.”

— “All the Queen’s Horses” director Kelly Richmond Pope

MORNING SHIFT

WBEZ91.5CHICAGO



**American
Cancer
Society®**



Non-Aligned Crimes

- Primary motive is for personal gain.
- Committed at employees at higher levels such as managers or executives who have access to information.
- Examples include organizational corruption including accepting bribes and insider trading.



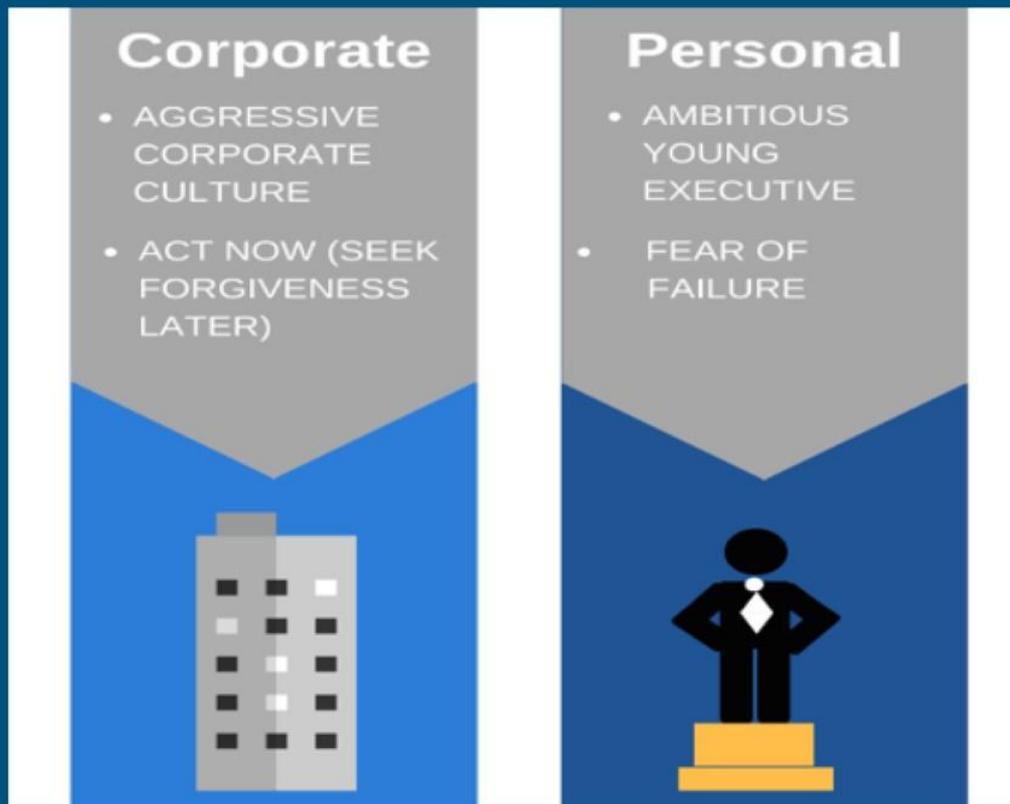
CASE: CORRUPTION



CORRUPTION: ADM PRICE FIXING SCANDAL



WHITACRE RECAP



ADM-Marc Whitacre



ADM Price Fixing Scandal

International Price Fixing

Senior executives were indicted on criminal charges for engaging in a price fixing scheme in the international lysine market.



1993

Failing to Prevent Bribes

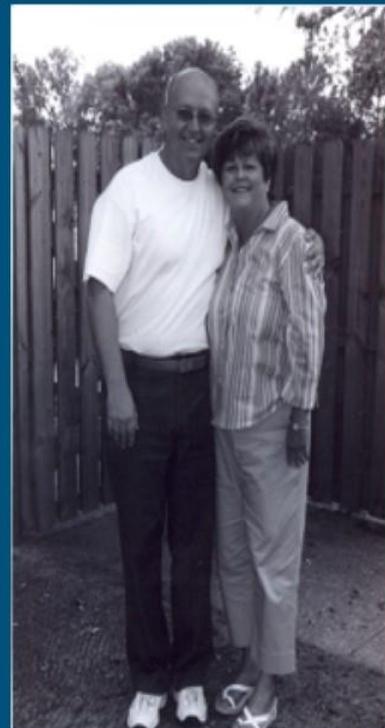
The SEC charged ADM for failing to prevent bribes made by foreign subsidiaries to Ukrainian government officials in violation of the FCPA.



2013

ADM-Mark Whitacre

- Highest-level corporate executive in U.S. history to become a Federal Bureau of Investigation (FBI) whistleblower.
- FBI informant for 3 years
- Lost FBI immunity



ADM- Lysine Price Fixing Scandal

- ADM settled Federal charges for more than US\$100 million
- ADM paid hundreds of millions of dollars more to plaintiffs and customers (US\$400 million alone on a high-fructose corn syrup class action case).

THE INFORMANT



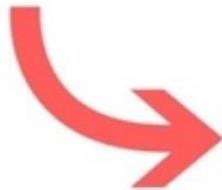
LESSONS LEARNED: ADM



A SPEAK-UP CULTURE IS CRITICAL



**THE FEAR OF FAILURE CAN IMPACT
DECISION-MAKING**



**SPEED OVER ETHICS WAS MORE
IMPORTANT**

Always pay
attention to red
flags.



COMMONLY MISSED RED FLAGS

- **Lack of** written policies and standard operating procedures
- **Lack of** interest in or compliance with internal control policies, especially segregation of duties
- **Disorganized** operations in such areas as bookkeeping, purchasing, receiving, and warehousing
- **Unrecorded** transactions or missing records
- **Counterfeit** documents
- **Alterations** of documents
- **Photocopied** documents
- **Fund** transfers to offshore banks
- **Transactions** not consistent with the entity's business
- **Deficient** screening procedures for new employees
- **Reluctance** by management to report criminal wrongdoing
- **Unusual** transfers of personal assets
- **Employees** with lifestyles beyond their means

- **Questionable** handwriting on documents
- **Accounts** not reconciled on a timely basis
- **Stale** items on account reconciliations
- **Continuous** out-of-balance subsidiary ledgers
- **Unusual** financial statement relationships
- **Bank** checks written to cash in large amounts
- **Handwritten** checks in a computer environment
- **Continuous** or unusual fund transfers among company bank accounts
- **Excessive** voids or credits
- **Unused** vacation time
- **Frequent** or unusual related-party transactions
- **Employees** in close association with suppliers
- **Employees** in close relationship with one another in areas where separation of duties could be circumvented
- **Expense-account** abuse

Professional skepticism

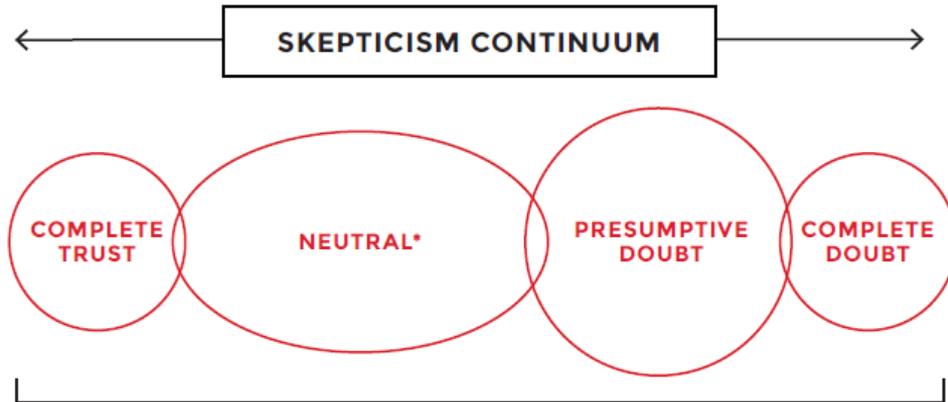
- Professional skepticism is a critical component of an internal auditor's duty of care that applies throughout any engagement. It's an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

The Three Key Elements of Professional Skepticism

- 1. Attributes:** This refers to the knowledge, skill and overall ability of the auditor. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their responsibilities.
- 2. Mindset:** This relates to the integrity and good faith of the auditor who does not assume honesty or dishonesty on the part of the audit client, but also recognizes the possibility of fraud, misstatement or misrepresentation of essential facts. Although internal auditors can generally assume that management and employees are honest, these same auditors should not be satisfied with less than persuasive evidence.
- 3. Action:** This element refers to the importance of performing a robust risk assessment, planning the engagement based on the risks involved, ensuring vigorous engagement supervision, and the diligent gathering and evaluation of audit evidence.

THE APPLICATION OF PROFESSIONAL SKEPTICISM

DEVELOPED BY PROFESSORS STEVEN M. GLOVER AND DOUGLAS F. PRAWITT, BINGHAM YOUNG UNIVERSITY



PROFESSIONAL SKEPTICISM**
"An Attitude that Includes a Questioning Mind"



The image features three speech bubbles on a white background. The top bubble is dark blue and contains the text "Not on my watch". The bottom-left bubble is light blue and contains the text "We are like family". The bottom-right bubble is medium blue and contains the text "It can't happen here".

"Not on
my watch"

"We are like
family"

"It can't
happen
here"

Why do great
employees often
miss red flags?



COGNITIVE DISSONANCE

The more committed we are to a belief, the harder it is to relinquish, even in the face of overwhelming contradictory evidence.

Instead of acknowledging an error in judgment and abandoning the opinion, we tend to develop a new attitude or belief that will justify retaining it.

Fast and Furious Heuristics

- A good heuristic can be better than a complex strategy when used in the proper environment.
- Less can be more.



Hey- I have a strong opinion about this!

Listen
to your
GUT

RedFlagTM
M A N I A

Watch the *When We Prey* trailer- Red Flag Mania. The link is provided in the chat box.

<https://www.youtube.com/watch?v=6vZrkpm6gbw>





WHO STOLE THE MONEY?

Asking yourself what do I do next? Use this checklist to identify who stole the money from Mountford Fellowship Church. This may help you determine if it's her, or him, or them...

- Does anyone live beyond their means?
- Does anyone have financial difficulties?
- Does anyone have an association with vendors?
- Is anyone divorced or having family problems?
- Does anyone appear unwell, suspicious, or defensive?
- Does anyone refuse to take vacations?
- Does anyone have past employment-related issues?
- Has anyone complained about inadequate pay?
- Is there any excessive pressure from within the organization?
- Does anyone have past legal problems?
- Are financial files segregated?
- Are financial decisions dominated by one person?

RED FLAG MANIA FACT
The average organization annually loses approximately 3% of its revenue to fraud.

HOW TO PREVENT FRAUD

Good internal controls will not stop people from stealing, but good internal controls can catch a person that IS stealing!

BUSINESS OWNERS WHO THINK THEY DON'T NEED INTERNAL CONTROLS OFTEN SAY:

- I can't have good internal controls.
- I don't have the time or money.
- It's just part of the family.
- I don't want to create a culture of lack of trust.

STOP FRAUD CAN BE PREVENTED:
Everyone will try and not know. It's why the profession in question could use PRESSURE TO PREVENT FRAUD.

A COMMON RED FLAG:
A WIFE FINDS THE T-EGS

THE FRAUD TRIANGLE:
Opportunity
Pressure
Rationalization

OPPORTUNITY IS THE ONLY ASPECT OF THE FRAUD TRIANGLE A BUSINESS CAN CONTROL.

VERY HELPFUL TIPS:

- Establish a fraud detection culture.
- Have an anti-fraud policy.
- Assign responsibility for fraud prevention.
- Monitor and review internal controls.
- Conduct regular audits.
- Report suspicious activity.
- Investigate promptly.
- Communicate the results.
- Review and update the policy.
- Train employees.
- Encourage reporting.
- Reward reporting.
- Investigate promptly.
- Communicate the results.
- Review and update the policy.
- Train employees.
- Encourage reporting.
- Reward reporting.

THE TRADITIONAL FINANCIAL STATEMENT AUDIT IS NOT DESIGNED TO FIND FRAUD.

BEST PRACTICES WHEN HANDLING CASH:

- Separate cash handling duties.
- Use pre-authorized checks.
- Deposit cash in a bank daily.
- Reconcile cash on hand to bank statements.
- Use a cash log.
- Limit cash on hand.
- Use a cash register.
- Use a cash receipt book.

SCHEMES TO REMEMBER:

- Employee theft.
- Vendor fraud.
- Check fraud.
- Invoice fraud.
- Expense fraud.
- Travel fraud.
- Time fraud.
- Asset misappropriation.
- Kickback.
- Bribe.
- Kickback.
- Bribe.
- Kickback.
- Bribe.

RedFlag

Intro Questions | Synopsis | When We Prey Film | Investigation

INVESTIGATE THE EVIDENCE

Examined evidence: 2/5
Examined suspects: 0/5

SUSPECTS

- Doug Leflin - Financial Secretary
- Lori Coleman - Pastor
- Robin Shoals - Office Assistant
- Ruben Head Teller

RedFlag

QUESTION 1

What is the most likely reason for the missing money?

- Employee theft
- Vendor fraud
- Check fraud
- Expense fraud

QUESTION 2

Who is the most likely suspect?

- Doug Leflin
- Lori Coleman
- Robin Shoals
- Ruben Head Teller

RedFlag

Intro Questions | Synopsis | When We Prey Film | Investigation | Who's Debbie? Film

INVESTIGATE THE EVIDENCE

Examined evidence: 2/5
Examined suspects: 0/5

EVIDENCE BOARD:

- bee-letter
- Receipt
- Check
- Envelope

SUSPECTS:

- Doug Leflin - Financial Secretary
- Lori Coleman - Pastor
- Robin Shoals - Office Assistant
- Ruben Head Teller

Agenda Review



THINK



REFLECT



PROCESS



DISCUSS



RETAIN

LESSONS LEARNED

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DePaul University
kpope2@depaul.edu

